

Message Text

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ACTION EUR-12

INFO OCT-01 EA-09 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-02

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

FRB-01 INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06 LAB-04

SIL-01 PA-02 PRS-01 /105 W
----- 127434

R 241705Z OCT 75

FM AMEMBASSY BONN

TO SECSTATE WASHDC 3874

INFO AMEMBASSY BERN

AMEMBASSY BRUSSELS

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

USMISSION OECD PARIS

AMCONSUL FRANKFURT

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DEPARTMENT PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A

TAGS: EFIN, GW

SUBJECT: FINANCIAL DEVELOPMENTS (WEEK ENDING OCTOBER 23)

REF.: BONN 17369

1. THURSDAY'S CABINET MEETING FURTHER POSTPONED A DECISION ON WHETHER TO ENACT FURTHER INVESTMENT INCENTIVES AND OTHER TAX MEASURES DESIGNED TO IMPROVE BUSINESS PROFITS. ECONOMICS MINISTER FRIDERICHS (FDP) FAVORS SUCH MEASURES WHILE FINANCE MINISTER APEL (SDP) IS OPPOSED.

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2. PRELIMINARY STATISTICS INDICATE THAT THE FEDERAL

REPUBLIC HAD A TRADE SURPLUS (NON-SEASONALLY ADJUSTED) OF DM 2.8 BILLION AND A CURRENT ACCOUNT SURPLUS (NON-SEASONALLY ADJUSTED) OF DM 0.8 BILLION IN THE MONTH OF SEPTEMBER. FOR THE FIRST NINE MONTHS OF 1975 THE TRADE SURPLUS THUS HAS AMOUNTED TO DM 27.9 BILLION AND THE CURRENT ACCOUNT SURPLUS TO DM 6.1 BILLION.

3. FOREIGN EXCHANGE MARKET: DURING THE REPORTING WEEK SPOT AND FORWARD DOLLARS DEVELOPED AS FOLLOWS:

	SPOT DOLLARS	ONE-MONTH	THREE-MONTH
	FORWARD DOLLARS (DISCOUNTS IN PCT.P.A.)		
OCT 16	DM 2.5740	-2.1	-3.0
17	2.5645	-2.8	-3.0
20	2.5570	-2.6	-2.9
21	2.5720	-2.3	-2.7
22	2.5535	-2.2	-2.7
23	2.5575	-2.8	-2.8

WITHIN THE JOINT FLOAT THE DM STRENGTHENED SOMEWHAT AGAINST THE OTHER FLOAT CURRENCIES WITH THE EXCEPTION OF NORWEGIAN AND SWEDISH CROWNS. THE NORWEGIAN CROWN REMAINED THE WEAKEST FLOAT CURRENCY.

4. MONEY MARKET: THE GERMAN CALL MONEY MARKET TIGHTENED SOMEWHAT WITH CALL MONEY INCREASING ABOVE THE 3.5 PERCENT REDISCOUNT RATE. ON OCTOBER 20 THE BUNDESBANK REINSTATED ITS OFFER TO PURCHASE BILLS ABOVE BANKS' NORMAL REDISCOUNT QUOTAS. DURING THE REPORTING WEEK FRANKFURT INTER-BANK MONEY RATES DEVELOPED AS FOLLOWS:

	CALL MONEY	ONE-MONTH MONEY	THREE-MONTH MONEY
OCT 16	3.0-3.1	3.5-3.7	3.9-4.1
17	3.0-3.2	3.5-3.7	3.9-4.1
20	3.4-3.6	3.5-3.7	3.9-4.1
21	3.7-3.9	3.6-3.8	4.0-4.2
22	3.7-3.9	3.6-3.8	4.0-4.2

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23	3.4-3.5	3.6-3.8	3.9-4.1
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5. BUNDESBANK FOREIGN POSITION: IN THE SECOND WEEK OF OCTOBER (OCTOBER 8-15) THE BUNDESBANK'S NET FOREIGN POSITION INCREASED BY DM 0.5 BILLION TO DM 80.6 BILLION. HOLDINGS OF LIQUID FOREIGN EXCHANGE ROSE BY DM 466 MILLION. ACCORDING TO THE BUNDESBANK, HALF OF THIS INCREASE WAS ATTRIBUTABLE TO BUNDESBANK INTERVENTIONS

ON FOREIGN EXCHANGE MARKETS. GERMANY'S IMF GOLD TRANCHE
POSITION DECLINED BY DM 5 MILLION AND GROSS LIABILITIES
BY ABOUT DM 40 MILLION.

6. BANK LIQUIDITY: IN THE SECOND WEEK OF OCTOBER BANK
LIQUIDITY INCREASED BY DM 1.9 BILLION. MAJOR FACTORS
INCREASING LIQUIDITY WERE THE ABOVE MENTIONED
INCREASE IN BUNDESBANK MONETARY RESERVES, DM 0.6
BILLION OF BUNDESBANK BOND PURCHASES ON THE OPEN MARKET
AND A DM 0.9 BILLION DECLINE IN CURRENCY IN CIRCULATION.

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R 241705Z OCT 75

FM AMEMBASSY BONN

TO SECSTATE WASHDC 3875

INFO AMEMBASSY BERN

AMEMBASSY BRUSSELS

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AMEMBASSY TOKYO

USMISSION EC BRUSSELS

USMISSION OECD PARIS

AMCONSUL FRANKFURT

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OTHER FACTORS, NET, INCREASED LIQUIDITY BY DM 1.5
BILLION. THE ONLY MAJOR FACTOR REDUCING LIQUIDITY
WAS AN INCREASE IN OFFICIAL NET ASSETS HELD AT THE

BUNDESBANK RESULTING FROM PAYMENTS FOR THE MINOR MID-MONTH TAX DATE. THE BANKS USED THE INCREASED LIQUIDITY TO REDUCE REDISCOUNT BORROWINGS BY DM 0.6 BILLION AND BORROWINGS UNDER THE OPEN MARKET FACILITY BY DM 1.3 BILLION.

7. BOND MARKET: ON OCTOBER 23 THE BUNDESBANK DECIDED TO REDUCE ITS FUTURE OPEN MARKET PURCHASES OF BONDS OF THE FEDERAL GOVERNMENT, THE FEDERAL RAILWAYS AND THE FEDERAL POSTAL SYSTEM (SEE BONN 17369). ON OCTOBER 21 AND 22 ALONE THE BUNDESBANK PURCHASED DM 0.9 BILLION OF THESE BONDS WHEN RUMORS CIRCULATED ON THE MARKET THAT

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AT THE OCTOBER 23 MEETING OF THE CENTRAL BANK COUNCIL A DISCONTINUATION OR REDUCTION OF THE BUNDESBANK OPEN MARKET PURCHASES MIGHT BE DECIDED. AFTER THE BUNDESBANK'S DECISION WAS ANNOUNCED PRICES OF PUBLIC BONDS DECLINED WITH SOME BONDS LOSING AS MUCH AS 1.75 POINTS. ACCORDING TO PRESS REPORTS, THE BUNDESBANK'S DECISION WAS FAVORABLY ACCEPTED BY BANKS AND MARKET ANALYSTS. THE DECISION, IT WAS OBSERVED, WOULD REDUCE THE DIVISION OF THE BOND MARKET INTO THAT PORTION SUPPORTED BY THE BUNDESBANK AND THAT PORTION NOT SO SUPPORTED, AND HENCE SHOULD MAKE IT AGAIN POSSIBLE TO ISSUE FEDERAL BONDS ALTHOUGH AT AN INCREASED COUPON. AS OF OCTOBER 17, OCTOBER 10 AND OCTOBER 3 THE AVERAGE YIELDS TO MATURITY OF OUTSTANDING DOMESTIC AND FOREIGN DM BONDS WERE AS FOLLOWS:

OCT 17 OCT 10 OCT 3

BONDS OF FEDERAL GOVERNMENT, FEDERAL RAILWAYS AND

FEDERAL POST OFFICE (1) 7.68 7.59 7.60

DOMESTIC BONDS WITH

YIELDS TO MATURITY OF

UP TO 4 YEARS 7.84 7.83 7.85

OVER 4 YEARS 8.98 8.98 8.98

ALL DOMESTIC BONDS 8.83 8.85 8.91

FOREIGN DM BONDS 8.83 8.85 8.91

(1) SUPPORTED BY BUNDESBANK THROUGH OPEN MARKET PURCHASES UNTIL OCTOBER 23.

8. ECONOMIC INDICATORS PUBLISHED THIS WEEK: THE NUMBER OF NEW PASSENGER CARS REGISTERED IN SEPTEMBER CAME TO 186,151, AS COMPARED WITH 119,604 IN AUGUST 1975 AND 133,479 IN SEPTEMBER 1974. ACCORDING TO BUNDESBANK SEASONALLY-ADJUSTED DATA, THE VOLUME OF EXPORTS IN AUGUST CAME TO DM 13.41 BILLION, WHILE THE VOLUME OF

IMPORTS IN AUGUST AMOUNTED TO DM 11.82 BILLION (JULY:
EXPORTS, DM 14.20 BILLION; IMPORTS, DM 11.89 BILLION).
INSOLVENCIES IN AUGUST TOTALLED 752 -- 109 OR 12.7
PERCENT LESS THAN IN JULY 1975 AND 46 OR 6.5 PERCENT
MORE THAN IN AUGUST 1974.
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